

## Chap. 3 : business activities of general trading companies

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## Business Activities of General Trading Companies

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### 1. Most Important Business Activities

The fundamental function of general trading companies is to trade goods and services, but it is also characterized by a high degree of product as well as geographical and functional diversity, which, however, goes together with an organic integration of these diverse activities. They encompass both overseas dealings (import/export trade and third-country trade) and domestic dealings as the two forms of trade. Mitsui Bussan, Mitsubishi Shoji, and Suzuki Shoten (later Nissho, and now Nissho-Iwai) even in their pre-war days were already carrying out these two forms of trading. But it was only in the late 1950s that post-war trading companies truly rehabilitated themselves as *general* trading companies, when third-country trading was reopened as an important part of the business of these trading firms. Already in 1895, Mitsui Bussan had had its Shanghai branch engage in third-country trading, bringing Chinese products to Europe and vice versa.<sup>1</sup> It initially occupied only a small proportion of the total business, until it succeeded in marketing Chinese soya beans in Europe in 1908. The share of third-country trading then started to rise, as more diverse products came to be handled: during World War I it surpassed the 20 per cent level, and in 1919 it became as high as 33.5 per cent of the total business. Subsequently the share of third-country trade never went below the 20 per cent level throughout the pre-war years. Third-country trading was important in that it made the firm less dependent on domestic business fluctuations, contributing to business stability as well as to its expansion. And this is precisely why post-war general trading companies also emphasized third-country trading after the mid-50s.

Integration of export and import can serve as the starting point on the path to a truly general trading company. It enables two-way transactions, diversification of merchandise handled, and growth of transaction volume. Some of Japan's general trading companies carried out an integrated export/import

trade from the very beginning, as will be shown below. Other firms starting with one-way transaction subsequently added the other direction of the trade, making for integrated trade. Import/export trade and domestic trade (import ultimately becomes part of the domestic trade) are complementary, and the relative share of the two can change depending on the business cycles and the firm's internal factors. To take an example, one of the five largest cotton dealers in the Kansai area increased the amount of its domestic trade and consolidated its position in the Japanese market in its process of becoming a general trading company before it began emphasizing foreign trade.<sup>2</sup> In terms of the method of trading, general trading companies can engage in transaction on a dealer basis and agency business among others, which could be combined for risk-reducing purposes. In other words, they manipulate their trading activities around the trade forms and trade methods.

The great diversity of merchandise handled by general trading companies has been often noted: the axiomatic phrase used during the pre-war days was "from chicken feed to warships," while in the post-war days it changed to "from noodles to missiles." As will be described below, Mitsui already dealt with over 120 items of merchandise in the mid-1900s. Today's general trading companies are said to handle some 10 to 20 thousand items. The range of products they have handled has changed, and expanded, corresponding to the stages of economic development, although individual firms have handled different products depending on their own history. Diversification of products has been achieved as a result of activities of specific overseas branches and their forms of trading, and sometimes seemingly unrelated products were added to the list of merchandise. But it has always corresponded to the general expansion of business in the firms concerned. They have handled a full range of products from producer's goods to consumer goods of definite importance to the Japanese economy, although different companies have emphasized different goods. And main items have had close interrelationships among them, like cotton – cotton yarn – cotton fabrics, and iron ore – iron and steel – machinery. However, consumer goods were of little importance before the war, and even after the war they have generally been left estranged by general trading firms as a difficult area to tackle (especially those consumer goods with high degrees of product differentiation, like consumer durables). Of consistent importance for general trading companies of both pre-war and post-war days have been those products that are susceptible to the economies of scale and that enjoyed high global marketability. This is because these general trading companies had global information networks and various risk-averting institutions from early days (such as various methods of product hedging at commodity exchanges, both domestic and overseas).<sup>3</sup>

Large geographical coverage of an overseas branch network, together with a diversified trading form and product range, also promoted generalization of the business activities of trading firms, and has become part of the essential factors supporting their very existence. The establishment of individual overseas branches often served as an impetus for further diversification of

products as well as of the forms of trading, making the firm more and more general in its business, as was the case with Okuragumi, Mitsui Bussan, Boekishokai, Nichimen, and Kanematsu, among others, before the war.<sup>4</sup> Once established, Mitsui Bussan wasted no time in overseas branch formation, having over 30 branches or offices abroad by 1910. Most of them were located in Asia (in China, in particular), but Mitsui also had branches or offices in Australia, Great Britain, France, Germany, and the United States (there were representatives stationed in a number of other countries as well). Its New York branch, reopened in 1896, had been intended for silk trade, but it became the sole agent of Carnegie Steel Co. and American Locomotive Co. for the importation of railway equipment and also started buying cotton products as well. It subsequently began trading weaving machines, other industrial machines, and coal, among other products, and at some points expanded itself into financing and shipping.<sup>5</sup> Mitsui also had its overseas branches incorporated locally after World War I, starting with those in France and Germany.

Of considerable interest is the extent to which Japanese trading firms had completed their overseas network of branches and the kinds of activities these branches were engaged in. Table 1 gives a list of overseas branches and offices belonging to trading firms of Japan handling textiles as of 1932–1940. No data are available for those firms specializing in machinery and sundry goods, but those listed can be taken as representative pre-war trading firms. There were an overwhelming number of overseas branches/offices in Asia. One of them belonged to Nichimen (located in Shanghai), and it handled cotton, yarn, and cloth, and operated a ginning plant and a weaving factory. It achieved both product and business diversification by handling knit goods, umbrellas, matches, patent medicines, and fertilizer, among other products.<sup>6</sup>

Preparations for reorganizing the overseas sales networks by trading companies began in June in 1949, when part of the foreign exchange obtained as export revenue could be used for travelling abroad for the first time after the end of the war. When in August of the same year permits for establishing overseas branch offices started to be issued for export/import companies, such companies wasted no time to start working on the establishment of a network abroad, which had been all but lost. As of March in 1953, there were 140 overseas branches and offices engaged in foreign trade (89 per cent of them merely offices for resident representatives), while 551 Japanese nationals residing overseas were engaged in foreign trade (416 of them, or 96.6 per cent of the total, representing trading firms). Many of them were located in South-East Asia and the United States.<sup>7</sup> It took Japan until 1965 to acquire a larger number of overseas branches and offices engaged in foreign trade than the pre-war level in 1939, but in view of the heavy concentration of these pre-war offices in China alone, the post-war recovery effort seems to have yielded a quick result. Major trading firms in particular had attained the pre-war level of overseas network already in the mid-1950s, if only somewhat scantily equipped and manned. Subsequently, these overseas offices steadily

**Table 1.** Overseas branch networks of Japanese textile dealers (1932–1940)

[illegible]

[illegible]

Table 1. (continued)

France	Paris	Arima Yoko Ataka Shokai Chori Daido Boeki Gosho Hattori Shoten Inoue Shoji Itoman Shoten C. Itoh Shoten Ichida Shoten Iwai Shoten Iwata Shoji Inamishi Gomei Kanematsu Shoten Kato Bussan Konishi Shoten Marubeni Shoten Maruet Shoten Mataichi Shoten Mitsubishi Shoji Mitsui Bussan Sanro Sangyo Nissho Nozawa Gumi Nihon Menka Nittan Boeki Shintomo Shoten Sudatoku Takashimaya Iida Takenaka Shoten Takisada Gomei Tazuke Shoten Tamurakoma Shoten Takemura Mengyo Tadatoshi Toyo Menka Tomita Shoten Toyoshima Shoten Toyama Shoten Yagi Shoten Yamaguchi Shoten
Italy	Rome	
Morocco	Casablanca	
Egypt	Alexandria	
Tanganyika	Mombasa	
South Africa	Johannesburg Durban	
USA	Galveston Seattle San Francisco Los Angeles Dallas New York	
Mexico	Mexico City	
Brazil	São Paulo	

Argentina	Buenos Aires	oo	o	o	o	o	o	oo	oo	o
Uruguay	Montevideo									o
Chile	Santiago		o			o				
Australia	Melbourne Sydney	o		o	o	o	oo	oo	oo	o
New Zealand	Auckland Wellington						o			o

Sources: Nishikawa Teruo, "Kaigai ni okeru shōsha katsudō" (Overseas activities by trading companies), in Matsui Kiyoshi, ed., *Kindai Nihon Bōekishi* (Trade History of Modern Japan) (Tokyo, Yuhikaku, 1963), 3: 314–315 (cited from Nihon Menshifu Yushutsu Kumiai [Japan Export Association for Cotton Yarn and Cloth], *Nihon Mengyō Bōeki Shōshi* [A Short History of Cotton Trade in Japan]).



replaced foreign agents and brokers to assume ever increasing importance as overseas bases.

These overseas offices of trading firms, in addition to their commodity trade activities, played important roles in avoiding exchange risks, and were instrumental in collecting information as well. It was due to the diversity of overseas office activities that trading firms were able not only to inform manufacturers about overseas markets, net products, and new technologies, but also to arrange importation of foreign technologies, in addition to their more normal business of supplying production equipment and materials and marketing finished products. General trading companies in both pre-war and post-war times played these information-related functions (ultimately including technology transfer), enabling them to act also as organizers of an industry or to engage in import substitution business. Naturally this never precluded domestic information collection leading them to play the same roles as industry organizers and import substitutes, as can be typically seen in the case of Iwai Shoten in its pre-war activities (this firm started as a trader).<sup>8</sup> But in view of the consistently lower technological level in both pre-war and post-war Japan, the trading firms' strength as information providers was derived principally from their extensive overseas networks.

The pre-war Mitsubishi, for example, wanted to import foreign technologies and patents in a systematic manner mainly in chemicals, and in 1925 it had Mitsubishi Goshi, Mitsubishi Kogyo (mining), Mitsubishi Zosen (ship-building), and Mitsubishi Shoji, as well as other firms belonging to the Mitsubishi group, invest in the establishment of two companies for this purpose, together with Metalbank (Frankfurt am Main) in Germany, Ryoyo Kogyo (Tokyo), and Ostasiatisch Lurgi GmbH (Berlin). This venture, however, proved unsuccessful, and the companies were dissolved in 1931 with Mitsubishi Shoji being entrusted with the continuation of the business. On the other hand, Mitsubishi Shoji had established Société Anonyme Française Mitsubishi in 1924 and Mitsubishi Shoji Kaisha, GmbH., Berlin in 1928, both of which subsequently came to make major contributions in the inflow of overseas technologies as well as information, heftily supporting Mitsubishi *zaibatsu's* effort to promote heavy and chemical industries among its ranks.<sup>9</sup> Mitsubishi Shoji also supplied technology and information to non-Mitsubishi companies and army and navy arsenals in areas where there was competition with Mitsubishi companies.

In the post-war era, particularly during the Japanese economy's high growth period, information-gathering activities of general trading companies regarding new technologies assumed strategic importance for these firms. Mitsui Bussan set up a special division for handling technology in 1960 (later reorganized into the formal Technology Division), and also established overseas bases in New York, Düsseldorf, and London, seeking greater speed in technological information collection.<sup>10</sup> Some overseas offices were incorporated into local legal frameworks to expand their range of activities, while at the same time serving as the basis for overseas business expansion, for instance into plant exportation.

## 2. Related Business Activities

General trading companies were effective because “they, for instance, would first import coking coal, sell it to a Japanese steel company, transfer the steel products to a shipbuilding company, negotiate with ship owners for the sale of the ships, promise the shipowner the use of his ships when importing iron ore in future, sell the iron ore thus imported to the steel company, and so forth. They tied pieces together to form a chain and expand the ring.”<sup>11</sup> Naturally this does not necessarily mean that all the general trading companies deliberately integrated their business from the outset; indeed, the general trading companies of the *zaibatsu* groups in the pre-war days, for instance, did not. It may be closer to reality to say that they came to handle related products as a spontaneous development in their process of becoming more and more general in their business.

At any rate, what makes such a chain reaction in their business possible is their diversity in the forms of business, in the products they handle, and also in the geographical areas they serve. One cannot, however, overlook the importance of related business activities of these companies in this connection. In expanding business areas in a manner of chain reactions they integrate all such subsidiary activities as finance and foreign exchange, marine insurance, transportation, and warehousing into a coherent whole in a systematic way. These related businesses sometimes developed into independent businesses, generated new functions as industry organizers in the related field, or promoted the whole company to move into resource development.

Financing activities by general trading companies inherently are concomitant with the trading function. The general practice of wholesale dealings in Japan being carried out by credit based on mutual trust among the concerned enterprises, trading companies are placed at the forefront of credit chains as the originator of credit. With bank credit as the basis, trading companies wield considerable financing power in interfirm dealings, and serve as an effective lubricant for smooth business transactions between large and small enterprises, among large enterprises, and also among small enterprises. In discharging this important financing function, trading companies often issue short-term bills in purchasing but accept long-term bills in payment of the goods they sell, thereby accepting considerable risks. In the early post-war period, when many general trading companies had their net-worth ratio lowered in their effort to form respective enterprise groups, they became heavily dependent on financial institutions to acquire financing capabilities, all in order that they might provide interfirm credit. Here the general trading companies played the buffer function for banks. Furthermore, the financing function often led these general trading companies to act as industrial organizers also. Already in the pre-war period such developments could be observed. Mitsui Bussan, for instance, became the sole sales agent for the weaving equipment division of Toyoda as well as for Onoda Semento (cement mfg.) and Nakajima Hikoki (aircraft mfg.). It effected capital participation in Nihon Beer and Nihon Seifun (flour milling), to subsequently make them its

subsidiaries, and also founded such enterprises as Toyo Reiyon (rayon mfr.) and Sanki Kogyo. All these cases are manifestations of the financing activities of a general trading company.<sup>12</sup>

Let us look at the foreign exchange business of general trading companies in relation to their financing function. Mitsui Bussan strengthened its equity basis, and thus its credit extension capability grew enormously after World War I, reducing its dependence on Mitsui Bank. But this applied only to domestic financing activities; in the international field, it remained heavily dependent on Yokohama Specie Bank, credit houses (meaning non-Japanese foreign exchange dealers), and the Hong Kong-Shanghai Bank, among others, for financing overseas trade. It also became more dependent on Mitsui Bank after World War I for financing overseas trade.<sup>13</sup>

At the same time, the intra-firm foreign exchange assumed increasing importance. This in fact was financing itself on the foreign exchange front, making it possible to save on foreign exchange handling fees and even to earn exchange margins by the use of indirect exchanges.<sup>14</sup> Trading companies played far larger roles in exchange financing in the pre-war days, when the exchange rate was not fixed. And when exchange business came to be liberalized later in the post-war era, it was given further importance as a major related business of general trading companies.

Insurance and transportation, important as they are in international dealings, were already handled by general trading companies in Japan as part of their related businesses before World War II. To take up the case of Mitsui Bussan again, it had already founded and operated Taisho Kaijo Kasai Hoken (Taisho Marine & Fire Insurance Co., Ltd.) in 1918 for non-life insurance business. Transportation had been part of its business from the very outset, but it later came to own its own ships to transport coal from the Miike Mines to Shanghai and Hong Kong. Marine transportation was added to the list of businesses in the statute in 1898, and it established itself as a full-fledged division in 1903. This division quickly increased its tonnage for the chartering market when coal transportation increased in volume following the Russo-Japanese War, culminating in its position of hegemony as the biggest supplier of tramp steamers in the tramp trade. After World War I, it made its coverage global by engaging in third-country transportation and vigorously seeking third-party merchandise to be carried by Mitsui ships. When third-party transportation came to occupy over 30 per cent of its total business in the late 1930s, marine transportation became subject to state control, leading to the formation of a separate company in 1942, Mitsui Senpaku (now Mitsui O.S.K. Lines, Ltd.).<sup>15</sup> Marine transportation business had earned as much as nearly 30 per cent of the gross profit of Mitsui Bussan by 1918.<sup>16</sup> After World War II, it gradually improved its organizational set-up to handle transportation and insurance as foreign trade volume increased. Turning our eyes to the case of Mitsubishi Shoji, we see that it established the Transportation and Insurance Division in 1960, and started to offer tonnage to be chartered in 1964.<sup>17</sup> It was after the mid-1960s that general trading companies came to

attach greater importance to transportation and insurance businesses from the viewpoint of risk management.

### 3. Relations with Enterprise Groups

General trading companies integrate and organize their sister companies so that together they will form enterprise groups of their own, while they themselves join larger groups. Generalization of their businesses proceeded simultaneously with these two developments, but in this section, trading companies' relations with outside enterprise groups as constituting an environment for them will be discussed. Formation and subsequent development of general trading companies in Japan before and after the war occurred in the context of firm groups: in the context of *zaibatsu* before the war and in that of newer enterprise groups after the war.

The pre-war *zaibatsu* concerns can be classified into the following three categories in terms of their relations with trading companies:<sup>18</sup>

1. Those *zaibatsu* concerns that established trading companies in their formative or development processes as part of their diversification efforts, sometimes ending in failure; to this group belong Mitsui (Mitsui Bussan), Mitsubishi (Mitsubishi Shoji), Furukawa (Furukawa Shoji, which failed in February, 1920, and was absorbed into Furukawa Kogyo [Furukawa Mining Co., Ltd.] in November the following year after reducing its capital to one-fourth), Kuhara (Kuhara Shoji), and Nomura (Daito Bussan, dissolved in 1920);
2. *Zaibatsu* concerns that had a trading firm at the core of their group of industrial firms, to which belong Okura (Okura Gumi), Asano (Asano Shoten), Suzuki (Suzuki Shoten), Iwai (Iwai Shoten), and Morimura (Morimura Gumi); and
3. *Zaibatsu* concerns that did not operate a trading company, such as Sumitomo and Yasuda.

A brief explanation is called for regarding the Sumitomo group. It did not have a separate trading company of its own before the war but did have an efficient sales network. When in 1921 Sumitomo Sohonten (head office) was reorganized into a limited partnership, it took a refined-copper sales office under its direct management, with five sales offices in Japan and three such offices abroad.<sup>19</sup> At the time of the World War I boom, there was an abortive plan to set up a trading company of its own, and it was only after the war that this group came to have a trading arm.<sup>20</sup>

In the above classification, a considerable number of trading companies are described as having had some relations with *zaibatsu* or "enterprise groups," but only Mitsui Bussan, Mitsubishi Shoji, and Suzuki Shoten truly deserve to be called general trading companies, and Suzuki eventually went bankrupt. Both Mitsui Bussan and Mitsubishi Shoji were related to *zaibatsu* concerns, but the former had nearly become a full-fledged general trading

company before Mitsui developed into a genuine *zaibatsu* concern, while the latter became a general trading house thanks to the completion of Mitsubishi as a *zaibatsu* entity. Furthermore, the two *zaibatsu* concerns, with their idiosyncrasies, affected the development paths of their respective trading arms: While Mitsui Bussan had considerable business relations with firms outside of the Mitsui orbit in such areas as textiles, Mitsubishi Shoji was heavily involved in servicing other Mitsubishi firms by importing materials, exporting their products, providing interfirm credit, exporting capital, and sometimes acting as the sole sales agent.<sup>21</sup> This does not mean, however, that Mitsubishi Shoji was merely a distribution arm of Mitsubishi firms: it was able to develop by seeking business with other firms, too.

The *zaibatsu* were dissolved after the war. But since about the mid-1950s, various companies that had once had close relations with the former *zaibatsu* started to group themselves, which also prompted the emergence of new enterprise groups with no connection with the pre-war *zaibatsu*. All these firm groups showed marked growth and development during Japan's high-growth period on the basis of heavy and chemical industrialization. They had their own banks, trading firms, and manufacturing firms combined under one umbrella. What impressed the groups about the importance of trading firms in their roles and functions and allowed the trading houses to secure a firm basis in their respective groupings was the formation of the nuclear industry groups in 1955–1956: Mitsubishi Genshi Doryoku Iinkai (Mitsubishi Atomic Power Committee) with the participation of Mitsubishi Bank and Mitsubishi Shoji; Tokyo Genshiryoku Sangyo Kondankai (Tokyo Atomic Power Industry Consultants) with Fuji Bank and Marubeni-Iida (now Marubeni) participating; Nihon Genshiryoku Jigyokai (Japan Nuclear Power Business Group) with the co-operation of Mitsui Bank and Daiichi Bussan; Sumitomo Genshiryoku Iinkai (Sumitomo Atomic Energy Commission) with Sumitomo Bank and Sumitomo Shoji joining; and Daiichi Genshiryoku Sangyo Group (First Atomic Power Industry Group) with Daiichi Bank (now Dai-ichi Kangyo Bank) and Nissho (now Nissho-Iwai) joining, among others.

General trading companies played the co-ordinating function within their respective firm groups, and also came to play the role of industrial organizers more and more as the grouping grew tighter. Mitsubishi Shoji for one had come to play such functions by the mid-1960s, "greatly promoting the development of the entire group by serving as the lubricant in the group, as the organizer among the firms in the group and also as an effective trading house. Such contributions are clearly reflected in its business performance; over 30 percent of its business comes from transactions with Mitsubishi-group firms."<sup>22</sup> Post-war Japanese enterprises tended to have a full range of industries within their own groups, and within this context trading companies served to bind together all the affiliated companies by providing credit, engaging in negotiated transactions among the firms, and also mutually holding one another's shares, in addition to their function as the distribution centre.<sup>23</sup>

Here we must not overlook important differences between pre-war *zaibatsu* concerns and the post-war firm groups. *Zaibatsu* concerns with a holding

company in their ranks exerted a strong influence on decisions made by affiliated firms, while the post-war firm groups have no such holding companies. The pre-war Mitsui group had Mitsui Gomei as a partnership wielding controls over all its affiliates, including Mitsui Bussan, in their business strategies, important personnel decisions, and often in everyday operation of these companies until changes were effected in *zaibatsu* strategies to ward off public criticism.<sup>24</sup> Post-war general trading companies have come to exercise effective controls over their groups together with their banks, although the intra-group relations remained rather loose and fluid both in terms of capital participation and personnel interlocking until the mid-1960s.